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Boise Cascade Canada Ltd.
ANNUAL REPORT 1978





THE PRESIDENT'S MESSAGE

In 1978, Boise Cascade Canada Ltd. replaced The Ontario-Minnesota Pulp and Paper Company Limited. The change in name probably didn't come as a surprise to those of you who associated us with Boise Cascade already, but it may require a little explanation for those who are less familiar with us.

We became part of Boise Cascade Corporation in 1965. Headquartered in Boise, Idaho, the corporation is a major manufacturer, converter and distributor of paper and building materials. Boise Cascade Canada operates as a wholly owned subsidiary, with pulp and paper mills and woodlands units at Fort Frances and Kenora, Ontario, and a market pulp mill and woodlands unit at Newcastle, New Brunswick. The corporate office is in Fort Frances.

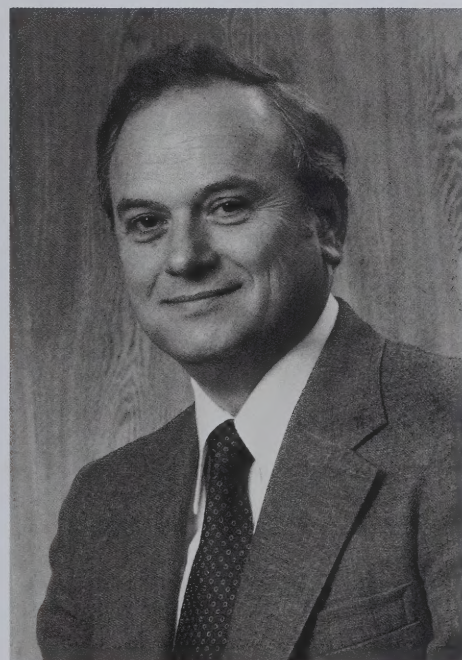
Our name was changed to more clearly communicate who we are to employees, customers and other interested people. Our principles remain the same. We want to be a fair employer, a dependable supplier and a constructive member of the communities in which we operate. And, of course, we want to be a profitable business earning a fair return on our owners' investment. In other

words, we want to be a valued corporate citizen of Canada.

1978 in Review. Certainly numbers alone don't tell the story, but a few figures do help illustrate our efforts and the degree of success we've achieved. Sales were \$200 million, and operating income was \$6.7 million in 1978—a modestly profitable year in spite of a poor pulp market and substantial downtime which was related mostly to strikes. Production was 582,000 tons of pulp and paper. We employed 3,500 people.

Our capital expenditures totaled \$42 million in 1978. Taxes paid to national, provincial and local governments helped support everything from schools to highways. And to further improve the communities in which we operate, we contributed approximately \$67,000 to organizations and programs ranging from curling clubs to museums to hospitals to merit scholarships for employees' children—not to mention the hours and effort our employees contributed to social, political and cultural affairs.

In general, the pulp and paper industry has been experiencing some rather tough times in many parts of Canada over the last few years, brought on by a



Harry W. Sherman

THE PRESIDENT'S MESSAGE

sluggish economy, strikes, high wood and labor costs, and keen competition from pulp and paper makers in the U.S. and overseas. Conditions improved in 1978, led by strong newsprint markets that enabled many Canadian paper companies to better their 1977 earnings performance. Much of the improvement in earnings, however, was attributable to favorable exchange rates on exports, resulting from the weakness of the Canadian dollar.

Demand was strong for the products Boise Cascade Canada manufactures, with the notable exception of market pulp. But even pulp was looking better toward the end of the year. Unfortunately, strikes had a major impact on our operations, resulting in approximately 63,000 tons of lost pulp and paper production and causing 1978 results to fall short of 1977's performance.

The Outlook. Our business outlook for 1979 appears to be fairly good, depending in part upon the economy. Inflation and unemployment continue to be problem areas. It remains to be seen

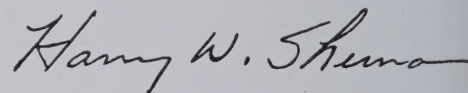
whether price increases will compensate for cost pressures from wood, energy and labor, but as the gap between world supply and demand continues to narrow, demand should be strong for most of the pulp and paper grades we produce.

In looking to the future, one of the things we should keep in mind is the fact that our products generally are international commodities sold in very competitive markets. With higher wage rates than in the U.S. and most other parts of the world and, in many cases, higher energy and wood costs, we have no alternative but to be productive in order to remain competitive.

Much of that competitiveness comes from capital expenditures to make our facilities as mechanically efficient as possible. The more than \$35 million earmarked for our Newcastle market pulp mill is an example of the company's willingness and ability to make those kinds of investments. Right alongside those commitments come investments in new safety, training, communication, energy conservation, pollution abatement,

maintenance and other programs needed to help make our working environment as efficient as possible.

But the factor that is most elusive—and perhaps most critical to our success—is the productivity of individual employees. As much as anything else, it's a matter of attitude. We view the occasion of our name change as an opportunity to reaffirm our dedication to producing quality products safely and efficiently. In so doing, we can help to insure that Boise Cascade Canada Ltd. will continue to be a responsible citizen of Canada's business community.



Harry W. Sherman
President

LOCATIONS



- 1. Fort Frances, Ontario**
 - Pulp and paper mill
 - Woodlands unit
 - Boise Cascade Canada Ltd. headquarters
- 2. Kenora, Ontario**
 - Pulp and paper mill
 - Woodlands unit
 - Sawmill
- 3. Newcastle, New Brunswick**
 - Market pulp mill
 - Woodlands unit

FORT FRANCES

Located in Northwestern Ontario, right across the river from International Falls, Minnesota, Boise Cascade Canada's Fort Frances, Ontario, pulp and paper complex has the capacity to produce 900 tons of pulp and paper a day. It has three paper machines and both groundwood and kraft pulp mills, employing 1,000 people.

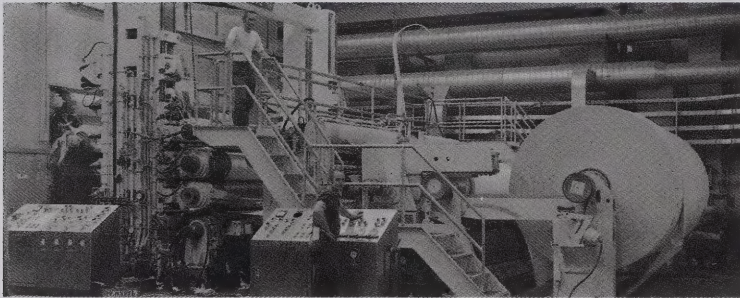
Known as a specialty groundwood mill, Fort Frances is capable of producing high grade newsprint but concentrates on: base stock which is shipped elsewhere to be coated for use as maga-

zine paper; paper used in paperback books; and a foil-adherent paper used for beer bottle labels and similar applications. The latter is a product requiring some unusual characteristics since it must adhere to a foil label on one side and a glass bottle on the other. Prices and volumes for these products were generally good in 1978 and should remain that way through most or all of 1979 because of growing demand for end-use products like magazines and paperback books.

Unlike a newsprint mill, the Fort Frances specialty groundwood mill may go through as many as five grade changes per day, with the process being modified to produce papers of different color, weight, thickness, brightness and

so forth. The new #5 paper machine and modern pulp facilities enhance the efficiency and flexibility of the operation. Approximately three-quarters of the pulp used in the mill is groundwood, with the remainder being kraft pulp, bleached or unbleached. Some bleached kraft pulp is sent to Boise Cascade Corporation's mill in International Falls, to Boise Cascade Canada's mill in Kenora and to other paper mills in the midwestern U.S. Most of the paper output of the mill goes to major book publishing customers in the U.S.

Wood for the mill comes largely from long-term harvesting rights on Crown



Robert Brown and Jim Gustafson help man the #5 paper machine.

Car Lloyd, Boise Cascade Canada's director of employee relations.

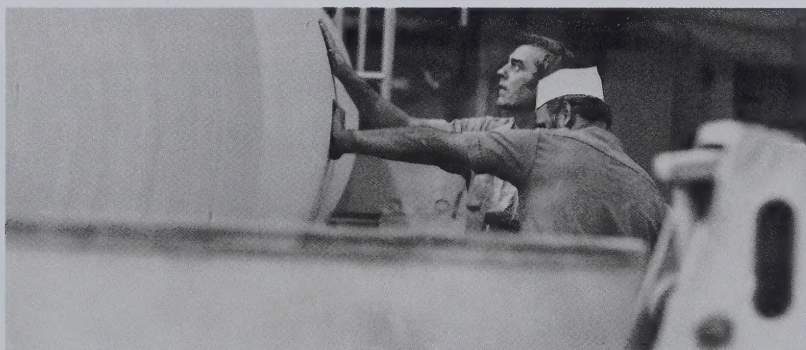


timberlands in the province of Ontario. Boise Cascade Canada has 2.8 million acres of timberland—primarily spruce and jack pine—under license from the government in Ontario, and the Fort Frances mill gets most of its supply from license areas in Northwestern Ontario. The remaining wood requirements come from 8,000 acres of land which the company owns in the province and from timber purchases in Ontario, Manitoba and Minnesota. The company's Fort Frances woodlands operations employ 220 people.

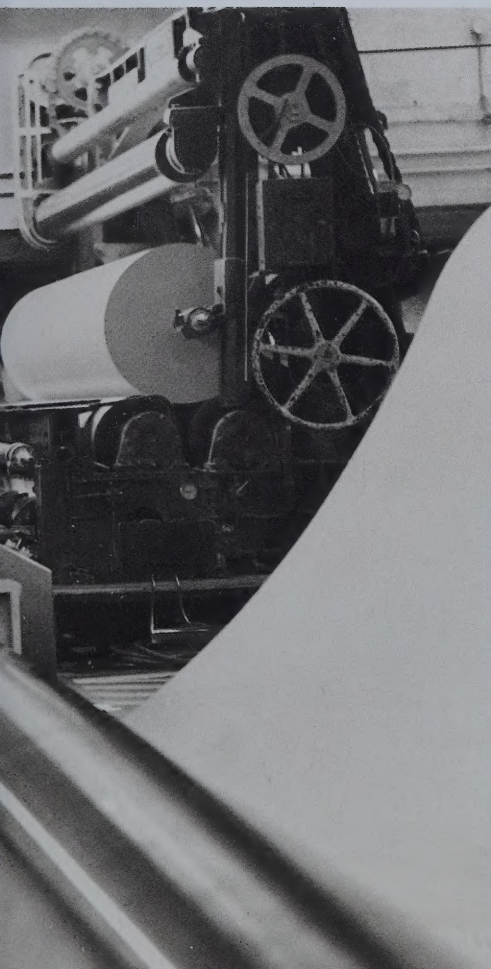
A strike by the woodlands workers at Fort Frances lasted for six months of

1978 and closed the pulp and paper mill for two months when many of the mill workers did not cross picket lines set up by the woodlands workers. Lost production totaled approximately 33,000 tons of pulp and paper in 1978. The primary issue in the strike, which continued into 1979, was the provision in the labor contract giving woodlands workers the option to own their equipment and be paid on a piece-rate basis instead of by the hour. Salaried personnel, joined by some of the hourly personnel, began operating the mill in November 1978. The mill strike was essentially over by February 1979, when all of the mill workers had returned to work.

Capital spending to upgrade plant and equipment at Fort Frances has been sizeable, with recent or current projects including a \$3 million wood room water conservation project, a \$7 million wood handling project and a new \$1.5 million roll wrapping system. In-plant fiber and water reservoirs were completed in 1978 at a cost of \$2.7 million, along with a \$4 million effluent primary clarifier which will allow more efficient use of wood fiber, as well as improve the water quality of the Rainy River.



Alex Markowski and Charles Westover use trained hands to check a reel of paper.



Jim Fowler, third hand on the #5 machine.

Jacqui Turner, receiving clerk at the central garage.



KENORA

Boise Cascade Canada's Kenora, Ontario, pulp and paper mill, situated at the northeastern outlet of the Lake of the Woods, employs 990 people. The mill is capable of putting out about 735 tons of newsprint a day, most of it destined for the midwestern U.S. In addition, the mill has the flexibility to produce the specialty groundwood paper that is used to make paperback books. That product also goes primarily to the midwestern U.S. and to other customers as far away as Pennsylvania.

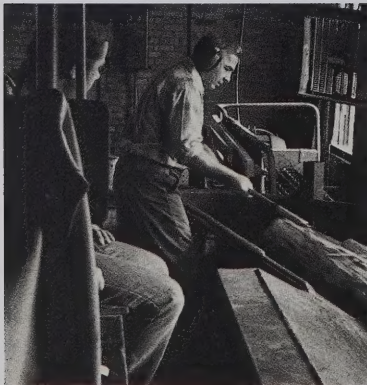
Markets for the Kenora mill's products were favorable in 1978. Strong circulation figures and steadily growing advertising lineage for newspapers created a high demand for newsprint which should continue into 1979. Canada's pulp and paper production is about 40% newsprint, and more than half of U.S. newsprint consumption is supplied by Canada. For several years, however, U.S. manufacturers have been increasing their capacity to supply that country's newsprint needs, especially in the southern states, and that trend continued in 1978.

Groundwood pulp, made by pressing logs against the mill's grindstones, is the chief ingredient of the Kenora mill's newsprint. The other component is chemical pulp, either kraft pulp trucked from the company's Fort Frances pulp mill or sulfite pulp produced at the Kenora mill's high-yield, sodium-based sulfite facility.

Like the Fort Frances mill, the Kenora mill's wood requirements are met from several sources, including the 2.8 million acres of timberland that we have under license from the Ontario provincial government. Most of the Kenora mill's requirements come from an area near the Lake of the Woods and other areas in Northwestern Ontario. The

A reel of paper being transferred from the reel drum to the unwind stand.

Feeding a wood chipper in the chipper mill.



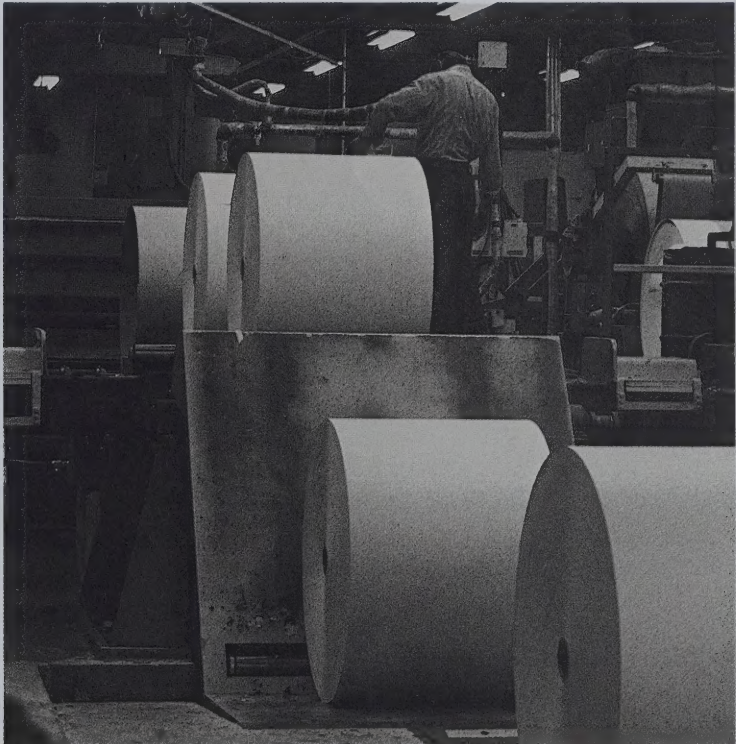
Kenora woodlands operations employ 260 people. A strike by the woodlands workers over issues similar to those at Fort Frances hampered logging operations for two and a half months in 1978 and closed the pulp and paper mill for three weeks, resulting in a production loss of approximately 30,000 tons of paper. Salaried and some hourly people began operating the mill in November 1978. Most of the Kenora mill employees had returned to work by mid-February 1979.

As part of an ongoing pollution abatement program, since 1971 the Kenora mill has achieved an 80% reduction in the amount of solid waste discharged into the Winnipeg River. The effluent

treatment system removes and processes for final disposal the suspended solids in water discharged in the wood room and the paper mill. Main installations in the facility are a pump house, a large white water clarifier, a smaller wood room clarifier and a sludge disposal plant. A \$2.5 million waste heat boiler installed a couple of years ago allows the mill to burn most of its waste materials and the waste materials from the company's Kenora stud mill. This has substantially reduced both air and water pollution problems.

Besides the pulp and paper mill and the woodlands activities, the stud mill is a third facet of Boise Cascade Canada's operations in the Kenora area. It employs 70 people. Wood for the sawmill comes from the same sources that supply the paper mill, with wood residues from the sawmill being converted into chips and transported to the company's pulp and paper mill at Fort Frances. Demand for the Kenora sawmill's studs was strong in 1978 and shouldn't taper off much in 1979.

Kenora block pile — wood storage area.



Roll wrapping system at the Kenora mill.

NEWCASTLE

The facility newest to our organization is the Newcastle, New Brunswick, pulp mill, which Boise Cascade operated as a joint venture with five European papermaking companies from 1970 until December of 1977. Boise Cascade then bought out the European partners, thus paving the way for needed improvements requiring some hefty investments. The # 1 pulp line was closed down in October 1977 as a result of operating inefficiencies and a poor market for pulp, leaving the newer line still operating. At the end of 1978, the mill's capacity was about 450 tons of market pulp per day.

More than half of the mill's wood requirements come from 24,000 acres of timberland owned in fee and 936,000 acres under license from the province of New Brunswick. Spruce and balsam fir are the primary species used in the mill's pulp production, but the timberland also contains birch and maple. The company's New Brunswick woodlands operations employ 390 people. The roughly 22% of wood requirements not supplied by timberland owned in fee or

under license comes from private wood lot owners in the area and, to a lesser extent, from residuals of sawmill operations.

The Newcastle mill, which employs 550 people, turns that raw material into bleached, semibleached and unbleached market pulp. Unbleached pulp accounts for about 20% of the mill's output and goes mainly to the northeastern U.S., where it is turned into carbonizing and other papers. Semi-bleached pulp makes up another 40% of the output and is used primarily for newsprint after shipment to Europe, although some of it ends up in New



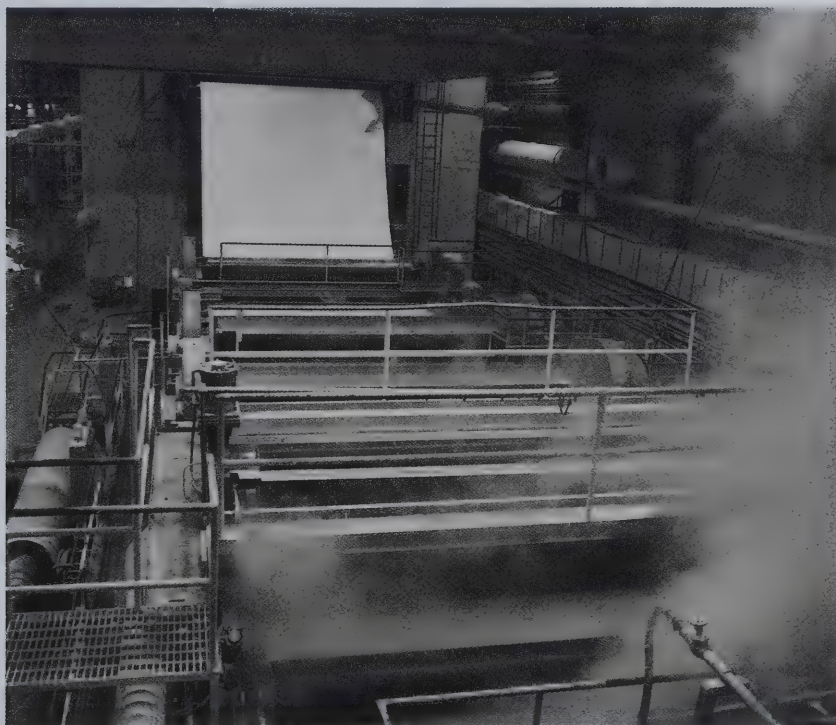
*The Newcastle mill and the
Miramichi River.*

Brunswick newspapers. The other 40% of the mill's production is bleached pulp, most of which is transported to Europe to be made into printing and other papers.

Unfortunately, the price of market pulp was off in 1978, the result of a glut of pulp on the world market. By the end of the year, however, pulp inventories were back down toward normal levels, and the supply/demand balance was much improved after two or three years of imbalance. Price increases announced in the latter part of 1978 and the early part of 1979 should make this cyclical product more attractive in 1979.

The \$39 million modernization program announced in March of 1978 will eventually have an even more positive effect on the Newcastle mill's profitability. The mill shut down at the end of 1978 for an intensive period of restructuring expected to last a couple of months. The bulk of the project should be completed by fall of 1979, with ultimate completion set for mid-1980.

Some expansion will take place as a result of the overhaul, but most of the program is for modernization. Wood handling, barking and chipping operations will be improved and expanded. The bleach plant will be upgraded, as will the pulp cleaning and screening equipment. Capacity of the pulp drying machine will be increased, and the recausticizing and boiler operations will be improved. When the program is completed, Newcastle's efficiency and profitability will be improved, along with the quality and uniformity of the pulp. The mill also will be well within the current standards for water quality.



On the #2 kraft pulp machine, the sheet leaves the presses on its way to the dryer.

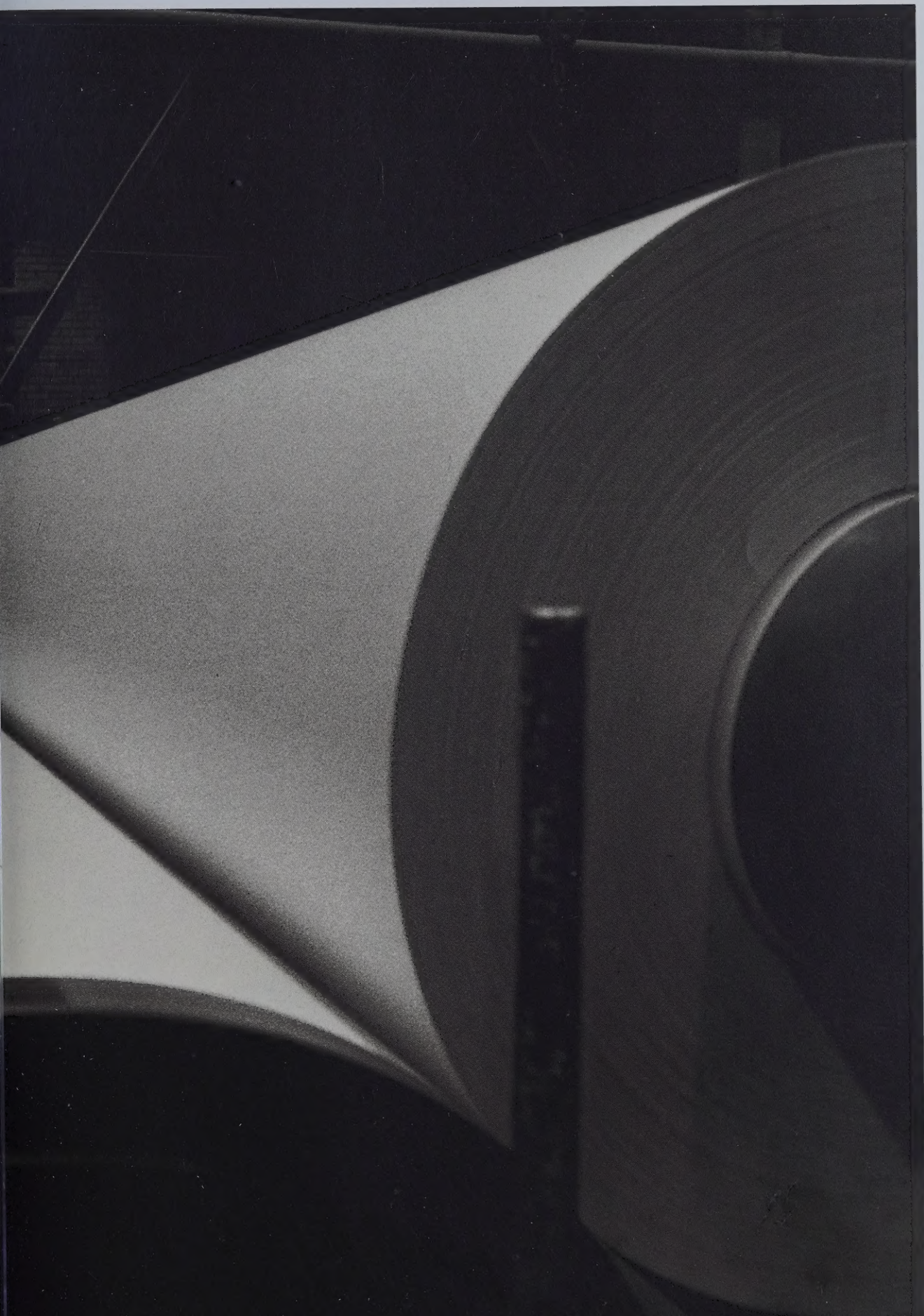


John MacIvor weighs a bale of paper before it enters the press on the baling line.

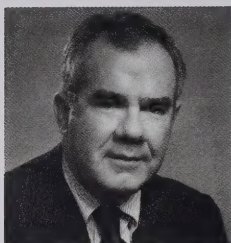
STATISTICAL INFORMATION -1978

Sales	\$200,000,000
Operating income	\$ 6,700,000
Capital expenditures	\$ 42,000,000
Number of employees	3,500
Pulp and paper production capacity (tons)	690,000
Paper sales volumes (tons)	
Printing and publishing papers	215,000
Newsprint	199,000
Market pulp	219,000
	633,000
Lumber production (board feet)	20,000,000
Timber resources	
Timberlands owned in fee (acres)	32,000
Canadian government licenses (acres)	3,777,000
Pulpwood (from the above acreages, in cords)	48,678,000

Dollar amounts are in Canadian dollars



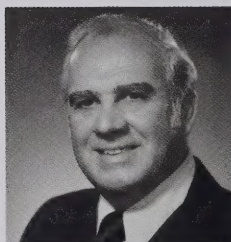
DIRECTORS



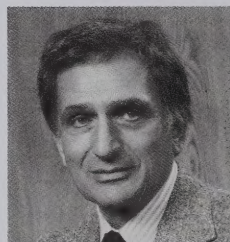
Juan del Valle
Executive vice president, Boise Cascade Corporation, Boise, Idaho



J. Duncan Edmonds
President, JDE Consulting Services Ltd., Ottawa, Ontario



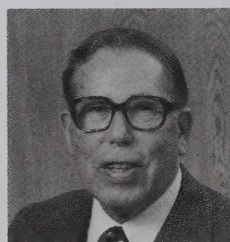
John R. Forrest
Senior vice president, Boise Cascade Corporation, Boise, Idaho



Philip Gordon
Former senior vice president and director, Shell Canada Ltd., Toronto, Ontario



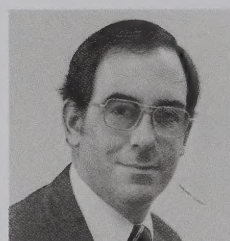
Dr. Georg Holzhey
Managing director, Haindl Papier GmbH, Augsburg, Germany



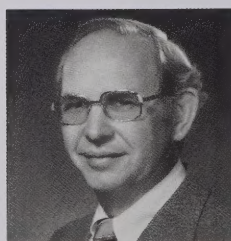
Sen. Alan A. Macnaughton
Senator, lawyer-general counsel, Martineau, Walker, Allison, Beaulieu, Mackell and Clermont, Montreal, Quebec



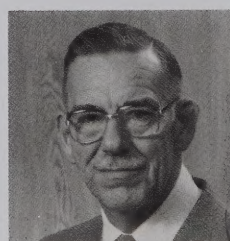
Robert E. Membery
Vice president, Petrosar Limited, Sarnia, Ontario



K. Peter Norrie
Senior vice president, Boise Cascade Corporation, Portland, Oregon



Will M. Storey
Executive vice president, Boise Cascade Corporation, Boise, Idaho



F. G. Williams
Chairman of the board, Boise Cascade Canada Ltd., Fort Frances, Ontario



Kenneth H. Woodley
Group vice president, Northern Telecom Canada, Toronto, Ontario



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